

EXECUTIVE SECRETARIAT
ROUTING SLIP

TO:		ACTION	INFO	DATE	INITIAL
1	DCI				
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Remarks

STAT

Executive Secretary

30 Aug 85

Date

THE WHITE HOUSE
WASHINGTON

Executive Registry

85-3115/5

CABINET AFFAIRS STAFFING MEMORANDUM

Date: 8/29/85 Number: ----- Due By: -----
 Subject: Economic Policy Council Minutes: August 1, August 7,
August 8 and August 9 Meetings

ALL CABINET MEMBERS	Action	FYI		Action	FYI
Vice President	<input type="checkbox"/>	<input checked="" type="checkbox"/>	CEA	<input type="checkbox"/>	<input checked="" type="checkbox"/>
State	<input type="checkbox"/>	<input checked="" type="checkbox"/>	CEQ	<input type="checkbox"/>	<input type="checkbox"/>
Treasury	<input type="checkbox"/>	<input checked="" type="checkbox"/>	OSTP	<input type="checkbox"/>	<input type="checkbox"/>
Defense	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Justice	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
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Agriculture	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Commerce	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Labor	<input type="checkbox"/>	<input checked="" type="checkbox"/>	McFarlane	<input type="checkbox"/>	<input checked="" type="checkbox"/>
HHS	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Svahn	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
HUD	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Chew (For WH Staffing)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Transportation	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Hicks	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Energy	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input checked="" type="checkbox"/>
Chief of Staff	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input checked="" type="checkbox"/>
Education	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input checked="" type="checkbox"/>
OMB	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input checked="" type="checkbox"/>
CIA	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input checked="" type="checkbox"/>
UN	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input checked="" type="checkbox"/>
USTR	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input checked="" type="checkbox"/>
GSA	<input type="checkbox"/>	<input type="checkbox"/>	Executive Secretary for:		
EPA	<input type="checkbox"/>	<input type="checkbox"/>	DPC	<input type="checkbox"/>	<input checked="" type="checkbox"/>
NASA	<input type="checkbox"/>	<input type="checkbox"/>	EPC	<input type="checkbox"/>	<input checked="" type="checkbox"/>
OPM	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input checked="" type="checkbox"/>
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SBA	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input checked="" type="checkbox"/>

REMARKS:

Attached for your information are the minutes of the following meetings of the Economic Policy Council:

August 1
 August 7
 August 8
 August 9

RETURN TO:

☒ Alfred H. Kingon
 Cabinet Secretary
 456-2823
 (Ground Floor, West Wing)

☐ Don Clarey
☐ Rick Davis
☐ Ed Stucky



L-300B

MINUTES
ECONOMIC POLICY COUNCIL

August 1, 1985
1:00 p.m.
Roosevelt Room

Attendees: Messrs. Baker, Block, Baldrige, Yeutter, Sprinkel, McFarlane, Whitehead, Darman, Jensen, Kingon, McAllister, Friedersdorf, Oglesby, Driggs, Khedouri, Moran, Mulford, Smith, Stucky, Wallis, Whitfield, and Wigg.

1. U.S.-EC Steel Negotiations

Ambassador Yeutter reported that last evening EC Commissioner De Clercq made a counter offer to restrain export of EC consultation steel products exports at either 490,000 tons (on an annualized basis) beginning July 1 or 475,000 tons beginning August 1. The standing U.S. offer is a 475,000 ton limit starting July 1. Several members of the Council expressed satisfaction that U.S. willingness to maintain our negotiating position, even if requiring unilateral action, may have prompted the EC concession.

Decision

The Council agreed to accept the EC offer, leaving the starting date to Ambassador Yeutter's discretion.

2. Section 201 Nonrubber Footwear Import Case

The Council continued its discussion of the Section 201 nonrubber footwear import case, begun at the July 23 meeting. Ambassador Yeutter reported that the prospect of a 25 percent tariff, rather than the ITC recommended global quota, was receiving a cool reaction in Congress and within the shoe industry. Senator Danforth has informed the Ambassador that if the Administration chooses to adopt a tariff, we would have 30 days with which to persuade the industry of its efficacy, or Congress would probably take up legislation imposing a quota. He noted that for a tariff to be effective in restricting imports it would have to be roughly 35 percent, instead of the 25 percent tariff currently being studied.

Chairman Sprinkel claimed that the footwear case fails to meet the major economic tests by which a President must decide whether to grant import relief: the relief would probably not help the domestic shoe industry become more competitive; the cost to consumers would be significant; the adjustment process without relief would not be difficult for

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domestic shoe workers; and the international ramifications would be significant. He argued for aggressive leadership by the Administration in resisting assistance to the domestic footwear industry.

Secretary Baker stated that the decision was not solely an economic one but also a tactical one. The issue is, what effect the President's decision on the footwear case will have in discouraging protectionist legislation, particularly textiles.

Mr. Oglesby stated that the Congress is becoming increasingly protectionist. He noted that the Administration's Congressional free trade allies are in a difficult position with regards to the footwear case, because the ITC unanimously recommended relief. He also noted the somewhat surprising importance of trade as an issue in the special Congressional race in Texas.

The Council's discussion focused on the intensity of protectionist feelings, within both society and Congress, and the potential of various footwear case options to affect that intensity. Some members expressed a belief that failing to provide some relief for the shoe industry would increase the intensity of protectionist sentiment. Others questioned whether providing relief for footwear would diminish protectionist intensity, and suggested it might have the opposite effect of spurring more requests for relief. The Council also noted that increased intensity for protectionism might adversely affect other elements of the President's program, such as seeking to reduce government spending and reforming taxes.

The Council also discussed the possible effects of providing relief for the shoe industry on the newly industrialized countries, including Brazil. Some members expressed concern about Brazil's ability to service its debt if its shoe industry is significantly harmed. Mr. McFarlane suggested the Council should consider an option that might lessen the effect of a quota on Brazil by establishing orderly marketing agreements.

The Council noted that there are not many upcoming 201 cases, which might reduce the impact of the footwear case as a precedent. Secretary Baldrige pointed out that if the President rejects the recommendations of the ITC, it raises the threat that Congress might amend Section 201 to remove the President's discretion in such cases.

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Decision

Secretary Baker asked that two additional options be developed for Economic Policy Council consideration: a quota with orderly market agreements and a 35 percent, steeply declining tariff.

MINUTES
ECONOMIC POLICY COUNCIL

August 9, 1985
1:30 p.m.
Cabinet Room

Attendees: The President, the Vice President, Messrs. Baker, Shultz, Weinberger, Meese, Block, Baldrige, Regan, Yeutter, McFarlane, Ford, Moore, Darman, Kingon, McAllister, Porter, Keel, Buchanan, Oglesby, Rollins, Speakes, Svahn, Thomas, Dawson, Khedouri, McMinn, Robinson, Smart, Smith, Stucky, and Wallis, and Ms. Dole.

1. Section 201 Nonrubber Footwear Petition

Ambassador Yeutter noted that proposals for domestic footwear protection have a long history: in 1975, President Ford choose not to provide any relief to the domestic footwear industry; in 1977 the Carter Administration negotiated orderly marketing arrangements (OMAs) with major shoe exporting nations. Since 1980, foreign import penetration has increased from 50 percent of the domestic market to 77 percent. A year ago, the International Trade Commission (ITC) found no injury from foreign footwear imports, but Congress then changed the criteria that the ITC must use in evaluating the need for import relief, and the ITC found a case for granting import relief in May 1985 after the domestic industry applied for relief again.

Ambassador Yeutter stated that the Trade Act of 1974 requires the President to grant relief unless he finds it is not in the national economic interest to do so. He explained that the Economic Policy Council agrees that there is no good economic case for relief, even with the import penetration level of 77 percent.

Mr. Yeutter outlined the options prepared for the President:

Option 1 would link a decision to provide no import relief with an announcement that the President is self-initiating Section 301 foreign unfair trading practice investigation, including the specifics of the first 301 investigation. This option would diminish criticism of the footwear decision and counter criticisms that the Administration has no trade policy, without imposing costs on consumers or on our major shoe trading partners.

Option 2 is the ITC recommended global quota, which the President under law must consider.

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Option 3 is a 30 percent tariff, which would be less economically damaging than the ITC recommended quota. A tariff would not take the competitiveness out of the shoe market, although it would lead to higher shoe prices. The Federal Government also would receive the revenues from the tariff, unlike the quota case in which foreign importers would receive the economic rents.

Ambassador Yeutter pointed out that the Congressional implications of the footwear decision are significant. He noted that the footwear case is perceived by most Members of Congress as a sound economic case, particularly because of the ITC finding and the 77 percent import penetration level. Some probable Congressional responses to a decision against relief will include charges by Administration opponents that Section 201 of the Trade Act of 1974 is being ignored and complaints by allies that the failure to act will lead to an avalanche of protectionist legislation.

He reported that the domestic shoe industry, which earlier was opposed to tariffs, is now willing to support them. Ambassador Yeutter stated that the major disadvantages of the tariff choice are the precedent it would set and the signal it would send for more protectionism, and the burden it would place on shoe exporting countries with large external debts such as Brazil.

The President noted that some additional disadvantages of providing import relief are that it costs more to protect jobs than those jobs pay; families will have to pay more for shoes; and our leadership in promoting free trade will be diminished.

Secretary Baker pointed out that the Administration faces a tactical decision on how to preserve free trade. He stated that a major part of that approach must include correcting the misperception that the Administration has no trade policy. Option 1 includes a statement that the President will aggressively enforce fair trade laws, including self-initiating Section 301 investigation.

Several members of the Council expressed strong support for self-initiating Section 301 investigations. Ambassador Yeutter stated that there are several good cases of unfair foreign trading practices, including Taiwan's failure to protect intellectual property rights and Japan's closing of its soda ash market to the U.S.

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Secretary Baldrige pointed out that many in Congress do not see the footwear case as protectionist because the shoe industry went through the Section 201 process and shoe imports make up 77 percent of the domestic market. He stated that because the President has turned down the previous three Section 201 recommendations for relief, a decision not to provide relief to the domestic footwear industry may provoke Congress into attempting to take away the President's discretion in 201 cases. He also cautioned that self-initiating several Section 301 cases may not have as strong an effect as many anticipated.

The Council discussion focused on the tactical value of the footwear petition as a vehicle for preserving free trade by diminishing the intensity of protectionist sentiment in Congress. Secretary Shultz argued that placing a tariff on footwear imports could serve as a justification for placing a tariff on many products and therefore would prove a dangerous precedent, encouraging more protectionism.

The Council also discussed the tactical importance of a pro-consumer stance. Several members of the Council argued that the President could make a strong case on behalf of consumers. Mr. Moore pointed out that the ITC recommendation would cost \$26,000-\$27,000 a year to protect jobs paying only \$14,000.

MINUTES
ECONOMIC POLICY COUNCIL

August 8, 1985
2:00 p.m.
Roosevelt Room

Attendees: Messrs. Baker, Shultz, Block, Baldrige, Yeutter, Sprinkel, Darman, Ford, Kingon, McAllister, Porter, Oglesby, Speakes, Svahn, Keel, Khedouri, Low, McMinn, Moore, Robinson, Smart, Smith, Stucky, and Wallis, and Ms. Dole.

1. Section 201 Nonrubber Footwear Petition

Ambassador Yeutter stated that two more options have been developed for the Council's consideration in the Section 201 nonrubber footwear case: a quota with orderly market agreements (OMAs); and a tariff beginning at 35 percent and declining steeply over three years. He noted that the tariff, even if set at 35 percent, probably would not significantly reduce shipments from abroad, as exporters would absorb the costs.

He outlined the advantages and disadvantages of orderly market agreements. The major advantages of OMAs are that, unlike tariffs, they would provide a definite level of protection and afford more flexibility in dealing with developing countries having difficulties in servicing their external debts, such as Brazil. The disadvantages of OMAs are the likelihood that exporters will upgrade their products as the Japanese did under the voluntary restraint agreement on autos; the fact that the economic rents would not accrue to the Federal Government, as they would with tariffs; and the absence of readily apparent pain, such as higher prices, which might lead some to believe there is no cost to protectionism. A final difficulty is allocating the orderly marketing agreements; there is the potential of seriously harming a number of developing countries exporting a relatively small amount of shoes into the U.S.

Mr. Oglesby reported that September is going to be a difficult time for the Administration in dealing with protectionist legislation from the Congress. The debt ceiling increase and a possible continuing resolution are potential vehicles for protectionist measures. He stated that the Administration must have a trade policy statement to defend our position and noted that a presidential speech would be helpful. Our free trade allies in Congress are in a difficult position on the footwear case because the International Trade Commission (ITC) has found injury and recommended a quota.

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The Council discussion focused on the value of providing relief for the domestic footwear industry as a means of resisting more harmful protectionist measures, such as the textile legislation. Mr. Shultz argued that if the Administration provides relief for the shoe industry, for which the Council agrees that there is no economic justification, then it will be difficult to draw the line on any other measures. Mr. Baldrige stated that because the President has overturned the last three ITC recommendations for relief, foreign exports make up 77 percent of the domestic shoe market, and that the ITC has recommended relief, Congress will interpret a decision to not provide relief as a signal that the Administration will never take any trade initiatives. Ambassador Yeutter stated that he has been warned by Congressional leaders that if the Administration fails to provide relief to the footwear industry, Congress will pass lumber and textile protection bills.

The Council also discussed the possible timing and tone in announcing a Presidential decision, particularly a decision not to provide relief. Mr. Darman suggested that the option of no relief be enhanced by combining such a decision with possible fair trade initiatives, such as self-initiating Section 301 investigation.

Decision

Secretary Baker asked that the options for the President be revised and reduced to three: (1) providing no relief, and (1a) simultaneously announcing that the Administration will self-initiate Section 301 investigations; (2) adopting the ITC quota recommendation; and (3) adopting a 30 percent tariff, declining over 5 years. The option of relying on OMAs was dropped.

MINUTES
ECONOMIC POLICY COUNCIL

August 7, 1985
1:30 p.m.
Cabinet Room

Attendees: The President, Messrs. Baker, Shultz, Weinberger, Meese, Block, Baldrige, Regan, Yeutter, McFarlane, Sprinkel, Wright, Darman, Kingon, McAllister, Porter, Buchanan, Oglesby, Rollins, Speakes, Svahn, Thomas, Chew, Dawson, Khedouri, Low, McMinn, Mulford, Robinson, Smart, Stucky, and Wallis, and Ms. Dole.

1. Trade Policy Strategy

Secretary Baker stated that the purpose of the meeting was to review with the President the progress of the Economic Policy Council in developing an Administration trade policy and strategy. He noted that trade policy is becoming the cutting issue of the 1980's, citing as evidence: the recent special Congressional election in Texas, where the single debate between candidates was dominated by the trade issue; the over 150 protectionist bills introduced in Congress; and the recent Governors Conference, in which there was much more interest in trade than in taxes and the Federal budget deficit.

Secretary Baker stated that those in Congress who disagree with our actions claim the Administration does not have a trade policy, a convenient and unwarranted charge. He explained to the President, however, that to improve our effectiveness in dealing with Congress, the Administration needs a better presentation and articulation of our trade policy. The Economic Policy Council is developing a trade statement and strategy, which should be completed by early September before Congress returns. He noted that this meeting is intended to identify for the President issues on which the Economic Policy Council has developed agreement, and issues where there is continued disagreement.

Secretary Baker outlined the major areas of agreement within the Economic Policy Council:

Macro-Economic Policies

1. The U.S. must recognize the adverse impact of excessive government spending and budget deficits, the recent strength of the dollar, and government regulations on the U.S. trade deficit.

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2. The Administration is reviewing, and will seek to amend, if warranted, anti-trust laws or regulations that impede our international competitiveness.
3. The Administration will consider the trade implications when developing further deregulation initiatives. In some cases, deregulation may increase imports without creating new opportunities for U.S. exports.

Ensure Free Trade

1. The U.S. will vigorously pursue its trade interests under U.S. law, the GATT, and other appropriate international agreements. In addition, the U.S. will take tactical measures (e.g. those taken in the recent pasta/citrus dispute) aimed at eliminating unfair foreign trade practices.
2. The Administration will continue vigorous enforcement of U.S. antidumping and countervailing duty laws and will see that other countries live up to their trade agreement obligations with the U.S.
3. The Administration will increase efforts to protect intellectual property rights (patents, copyrights, trademarks); we will accelerate work with a view toward possible Administration initiatives in this area.

Promote U.S. Exports

1. The U.S. should seek to redress the trade deficit through increasing exports instead of restricting imports.
2. The Administration will work with private sector advisory groups (e.g., the President's Export Council) to improve export promotion and to help companies look at global markets.
3. The Administration will evaluate Federal export promotion activities during the fall budget review to improve their effectiveness.

Promote Multilateral and Bilateral Trade Negotiations

1. There is a great need for a more comprehensive, more disciplined and more effective system of world trade rules.

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2. The Administration will maintain efforts to launch a new GATT round based on already agreed-upon U.S. objectives.
3. The Administration will examine possible bilateral and plurilateral negotiating opportunities, both to improve market access and fairer trade and promote wider interest in the multilateral negotiating process.

Limit Exceptions to Free Trade

1. The Administration is committed to market-based solutions to trade problems, at home and abroad, but occasional exceptions, in the form of relief from import competition may be necessary.
2. Import relief, if appropriate, should be temporary, decline over the period of relief, and lead to greater international competitiveness by the industry.
3. The Administration reserves the right to respond to foreign policies and imports that threaten industries essential to our long-term national security.
4. The Administration will vigorously enforce our export control laws to prevent the leakage of sensitive and critical technology of military significance to potential enemies. At the same time, the Administration recognizes the realities of foreign availability and the dependence of future technical advances on healthy, creative U.S. suppliers and free world exchange of scientific information.

Secretary Baker also outlined major areas of disagreement:

Macro-Economic Policy

1. How should the U.S. pursue our policy of encouraging trade partners to adopt appropriate policies designed to accelerate their real economic growth, in order to contribute to a gradual strengthening of their currencies and enhanced U.S. exports? Should the U.S. emphasize removing structural rigidities that impede the market? Should the U.S. promote convergent fiscal and monetary policies and, if so, in what forums?
2. Should the U.S. host a high-level meeting of the major industrial countries to review the issues in implementing the findings of the G-10 monetary studies, such as

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improving the floating exchange rate system, or continue to rely on the Interim Committee as the forum for following up on the G-10 studies?

3. Should the U.S. seek to ease the debt burden of those countries carrying out successful adjustment in accordance with IMF programs, so as to increase their ability to increase imports?

Ensure Fair Trade

1. Should the U.S. Government initiate actions to address foreign unfair trade practices, or continue the current policy of responding only to requests by U.S. industries for actions to counter unfair practices?
2. If the U.S. Government initiates actions to address foreign unfair trade practices, should it focus on restricting access to the U.S. market or using "market-opening" leverage, e.g., threatening free trade agreements with other countries?
3. Should the Administration support market opening legislation that permits or requires the President to close U.S. markets if foreign markets are not opened?
4. Should the U.S. establish a deadline for ending the MOSS and yen/dollar talks, expecting such a deadline to serve as a catalyst for Japanese action?
5. Should the U.S. counter proven cases of foreign industrial targeting? What is targeting? Would such countering harm or help the U.S. economy?
6. How aggressively should the Administration match export subsidies by our competitors, while continuing to press for agreements eliminating such subsidies?

Limit Exceptions to Free Trade

1. Should the U.S. protect industries that are not or cannot be competitive under fair trade conditions?
2. Should the Administration modify the dislocated worker program in the Job Training Partnership Act (JTPA) to focus more resources on workers dislocated by imports?

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Secretary Baker concluded by pointing out that much work remains to be done in developing a strategy for dealing with Congress, a strategy that might include a major Presidential speech in early September.

The President stated that the key to further trade liberalization is through more rounds of GATT. He pointed out that protectionists argue that the U.S. is losing jobs, yet in the past few years nine million new jobs have been created in the U.S., while our more protectionist trading partners have not expanded employment. He observed that the protectionist Smoot-Hawley legislation of 1930 had a devastating effect on employment.

The President noted that while U.S. products are too expensive as a result of the high value of the dollar, the dollar is declining gradually, which is the way the Administration wants it to come down. He stated that imports are bargains for the American consumers, and that the Government should not take these opportunities away from the consumer.

The President stated that our trade policy should be focused on correcting unfair trading practices of our trading partners and opening their markets by enforcing the laws we now have.

Secretary Baker stated that the Economic Policy Council is attempting to develop a strategy for pursuing a freer trade policy. He noted that the Council will discuss with the President in a few days whether to follow the International Trade Commission's recommendation for establishing worldwide quotas to protect the domestic nonrubber footwear industry. He noted that this action is not economically justified, but a decision must also be based on a tactical element: how will the President's decision on the footwear case affect protectionist sentiment and legislation on the Hill? He also raised the question of whether the President should self-initiate Section 301 investigations into unfair trading practices.

The Council discussion focused on the need for a better articulation of the Administration's trade policy and strategy, the value of a Presidential speech and the advisability of the President self initiating a Section 301 investigation into unfair trading practices. Several members of the Council stressed the importance of keeping our markets open, and opening foreign markets to our products.

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Secretary Shultz stated that the Administration should not assume that the Congress is entirely protectionist; we have allies who support free trade. He also noted that the current trade deficit is not related to changes in trading rules and practices, and that we should not expect to correct the deficit through changes in trade laws. He cautioned about the dangers of self-initiating Section 301 actions and the possibility of our trading partners retaliating against our initiatives.

The Council discussion focused on the need to open foreign markets to U.S. goods and services and the possible means of doing so. Several members noted that the EC seems to respond more quickly to retaliatory action, as the pasta/citrus case illustrates.

The Council also discussed the economic effect of the trade deficit: questioning whether it harms economic growth. Mr. Sprinkel noted that contrary to popular wisdom, the United States is not deindustrializing. In the current recovery, manufacturing is performing as well relative to services, as in other post-war recoveries.